

# Aerospace Industries Association

## **Business Systems Compliance**

### **Proposed Rule**

### **DFARS Case 2012-D042**

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# AIA Overview

- Founded in 1919
- Represents over 350 major aerospace and defense manufacturers and suppliers as well as approximately 844,000 aerospace and defense workers.
- AIA supports and endorses efforts to improve the effectiveness and the efficiency of the acquisition process.



# Business Systems Compliance

- Strengthen the rule and its implementation by:
  - Allowing CPA firms to determine whether business systems meet DFARS criteria based on Generally Accepted Government Auditing Standards (GAGAS), or alternatively perform “Agreed Upon Procedure Engagements” to accomplish this goal.
  - Take business systems compliance out of DCAA’s scope
  - Set an implementation timeline
  - Explicitly state audit costs are allowable



# Authority of 3<sup>rd</sup> Party Audits

- Auditing business systems is a commercial function, not a government function
- Allow CPA firms to determine if DFARS criteria is met based on Generally Accepted Government Auditing Standards (GAGAS) or by performing “Agreed Upon Procedure Engagements”.
- Give 3<sup>rd</sup> party audits the same authority as government conducted audits to avoid rework, with schedule delay and cost increase.

## Recommendations:

- Change DCAA’s scope of work: focus DCAA on incurred cost and other audits not business systems compliance.
- Familiarize DCMA’s contracting officer community with audit methods and practices used by 3<sup>rd</sup> Party firms.
- Require Contracting Officers to rely on 3<sup>rd</sup> party audit findings.
- Set standards for 3<sup>rd</sup> party audits and for CO determinations.  
(see next page)
- Consider DOD directly contracting with the CPA firms



# Implementation Timelines

- Mitigate potential workload bottlenecks, resource shortfalls and execution delays

## Recommend:

- For contractors with currently approved systems, grant a 2 year waiver.
- Stagger implementation instead of requiring all three systems undergo audit at the same time.
- Allow contractors to select which system to implement the process on.



# Costs

- Increases indirect costs
  - Requires process design and implementation for annual self-assessment and CFO compliance certification at the CAS segment level.
  - Higher cost per hour for independent accounting firms.

## Recommend:

- Explicitly stating the audit costs are allowable
- Remove redundant government audits from the process



## Other considerations/thoughts

- Explicitly state that the cognizant CACO/ACO will make determinations.
- Provide clarity on DOD's implementation plan.
- Address how Out of Cycle Audits costs will be incorporated into Forward Pricing Rate Agreements.
- Specify the assurances DOD will provide companies and 3<sup>rd</sup> auditors on working papers, including their protection. What if the 3<sup>rd</sup> party auditor objects?
- As an alternative approach, consider DOD contracting directly with CPA firms
  - Potentially lower cost
  - Independent



# Recommendation Summary

- Strengthen the rule and its implementation by:
  - Allowing CPA firms to determine whether business systems meet DFARS criteria based on Generally Accepted Government Auditing Standards (GAGAS), or alternatively perform “Agreed Upon Procedure Engagements” to accomplish this goal
  - Take business systems compliance out of DCAA’s scope
  - Set an implementation timeline
  - Explicitly state audit costs are allowable